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CENTRAL INTELLIGENCE BULLETIN



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DAILY BRIEF

I. THE COMMUNIST BLOC

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Ceylon - Communist China: Ceylon and Communist China, in meetings at Peiping, are having difficulty reaching agreement on terms for their annual rice-rubber contract. Burma, a traditional supplier of rice to Ceylon, has a large surplus this year and could fill Colombo's needs in the event of a breakdown in Sino-Ceylonese talks. Ceylon could probably find other markets for the 30,000 tons of rubber per year called for under the second Sino-Ceylonese five-year barter agreement concluded in 1957.

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NO
Watch Committee conclusion-- Berlin: (No significant changes bearing on the possibility of hostilities.)

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II. ASIA-AFRICA

NO
Iraq: A pro-Communist Iraqi Army officer has been named acting Deputy Chief of Staff for Operations following the arrest of the officer who previously held that post. The appointment will serve to consolidate Communist influence in the army and to facilitate the transfer of non-Communist officers to unimportant posts.

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Watch Committee conclusion--Middle East: (Situations susceptible of direct exploitation by Sino-Soviet bloc action which would jeopardize US interests exist in the Middle East, particularly in Iraq. The situation in the area remains precarious, but a deliberate initiation of large-scale hostilities is unlikely in the immediate future.)

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Iraq: (The Communists are progressively achieving control in Iraq, although for the present they may prefer not to move to take power in their own name.)

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NO

III. THE WEST

European Economic Community: The five major airlines of the European Economic Community are negotiating the possible formation of an airlines pool to be known as EUROPAIR. This would involve the sharing of revenues and expenses as well as close technical cooperation, joint sales and advertising, and rationalization of route operations. Another meeting is expected to take place in The Hague later this month.

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I. THE COMMUNIST BLOC

Sino-Ceylonese Rice-Rubber Negotiations

Sino-Ceylonese rice-rubber negotiations, begun on 4 March, have not yet been concluded, primarily because of disagreement on the prices of rice and rubber to be exchanged during 1959 under the two countries' second five-year barter agreement. Continued delay could result either in a reduction of the amounts of rice and rubber to be exchanged or possibly in Ceylon's seeking alternative suppliers and buyers.

Ceylon made its first barter agreement with Communist China in 1952 to ensure a regular market for its rubber and an annual rice supply at a time when world supply of rice was low. When the second pact was negotiated in 1957 the situation had not improved sufficiently to enable Ceylon to quibble over prices. At present, however, abundant rice supplies in Asia and increased demand for rubber in Western markets apparently have convinced some Ceylonese officials that they can afford to drive a hard bargain. In the likely event that Peiping refuses to pay Colombo premium rubber prices, the Ceylonese Trade Ministry may attempt to lower the 30,000-ton annual minimum specified in the present five-year agreement with Communist China and to expand private rubber sales in Western markets. The corresponding reduction of rice imports from China could be offset by imports from Burma, one of Ceylon's principal suppliers. Burma has an estimated rice surplus of 2,200,000 tons which it must export relatively soon. Burma's high rice prices had stalled negotiations with Ceylon for a 1959 rice contract which would further lessen Colombo's reliance on its barter agreement with Communist China. (Rangoon now reportedly expects Colombo to buy a substantial amount of rice, however, and may be quoting a price acceptable to Ceylon)

While the Sino-Ceylonese agreement is not an economic necessity for Ceylon at present, Colombo is unlikely to cancel it without receiving assurances that long-term arrangements can be made elsewhere. Furthermore, Communist China has granted Ceylon \$15,750,000 and loaned it \$10,000,000 in economic aid, and the neutralist Bandaranaike government presumably does not wish to reduce the possibility of future Chinese Communist aid offers by appearing indifferent to its economic ties with Peiping.

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III. THE WEST

Plans for European Civil Aviation Pool Make Progress

The five major airlines of the European Economic Community (EEC) are drawing up plans to pool their resources in a new organization to be known as EUROPAIR. Consisting of Air France, Sabena, KLM, Alitalia, and Lufthansa, EUROPAIR would involve a combination of ground services, standardization of aircraft fleets, joint bookings and sales, and consolidation of services and schedules within the EEC and abroad. Although short of an outright merger, close cooperation may extend to the sharing of revenue and expenses.

(Formation of EUROPAIR is in keeping with the trend toward business consolidation within the EEC and could strengthen the member airlines competitively on the major international routes, particularly the profitable North Atlantic run. EUROPAIR's members might also be in a strong position to concert their demands for additional landing rights in the United States, lack of which has long been one of their principal grievances.)

Allocation of shares between the well-established airlines like Air France and the relative newcomers like Lufthansa and Alitalia is reported to be the chief obstacle to an early agreement. KLM president Aler said after the recent meeting in Rome that while agreement had been reached on many points, a decision could not be expected for some time. (KLM's increased interest in the pool may reflect Dutch resentment over Britain's recent restrictions on that company's landing rights in Singapore.)

A fourth meeting of the five airlines is scheduled for late April in The Hague.

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